BACKGROUND RELATING TO
EXTENSION OF HIGHWAY-RELATED EXCISE TAXES
AND REAUTHORIZATION OF HIGHWAY TRUST FUND EXPENDITURES

Scheduled for a Hearing

Before the

COMMITTEE ON FINANCE

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Prepared by the Staff

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INTRODUCTION

This document,[1] prepared in connection with the hearing before the Senate Committee on Finance on September 18, 1986, provides a summary description of present law Highway Trust Fund excise taxes and expenditure purposes and the four-year Highway Trust Fund reauthorization bill (S. 2405) as reported by the Senate Committee on Environment and Public Works.[2] The Committee on Finance is to consider an extension of the Highway Trust Fund and the related highway user taxes which finance the Trust Fund expenditures.

The first part is a summary description of present law Highway Trust Fund excise taxes, as well as the Administration's highway excise tax proposals, the highway-related excise tax provisions contained in the tax reform bill (H.R. 3838), and the highway excise tax provisions in H.R. 3129 as passed by the House. The second part discusses the Highway Trust Fund expenditure purposes and reauthorization amounts in S. 2405 and in H.R. 3129.

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[1] This document may be cited as follows: Joint Committee on Taxation, Background Relating to Extension of Highway-Related Excise Taxes and Reauthorization of Highway Trust Fund Expenditures (JCX-25-85), September 17, 1986.

[2] "Federal-Aid Highway Act of 1986," S. Rept. 99-369, August 5, 1986.

I. HIGHWAY-RELATED EXCISE TAXES

Present Law

Excise taxes

Excise taxes are imposed on gasoline and diesel and other motor fuels, trucks and truck trailers, heavy tires, and heavy highway vehicles. Revenues from these highway-related excise taxes are deposited into the Highway Trust Fund. The taxes are currently scheduled to expire after September 30, 1988. Deposits of pre-October 1, 1988 excise tax liabilities will continue to go into the Trust Fund for an additional nine months (through June 30, 1989). The table below provides a present law tax rate schedule for Highway Trust Fund excise taxes.

Present Law Highway Trust Fund Excise Taxes
(Through September 30, 1988)

Item	Tax Rate
Motor fuels	
Gasoline and special motor fuels	9 cents per gallon
Diesel fuel	15 cents per gallon
Trucks and trailers	
Trucks (over 33,000 lbs.) and trailers (over 26,000 lbs.)	12 percent of retail price
Tires for highway vehicles	40 lbs. or less--no tax 40-70 lbs.--15 cents/lb. over 40 lbs. 70-90 lbs.--$4.50, plus 30 cents/lb. over 70 lbs. Over 90 lbs.--$10.50, plus 50 cents/lb. over 90 lbs.
Use tax on heavy highway vehicles	Under 55,000 lbs.-- no tax 55,000-75,000 lbs. --$100, plus $22/1,000 lbs. over 55,000 Over 75,000 lbs.--$550

Exemptions

Alcohol fuels.--An excise tax exemption of 6 cents per gallon is provided for gasohol blends (i.e., 10 percent pure alcohol) of diesel, gasoline, and special motor fuels.[3] A 9-cents-per-gallon exemption is provided for neat methanol and ethanol fuels which contain at least 85 percent alcohol produced from a substance other than petroleum or natural gas. A 4-1/2 cents-per-gallon exemption is available for such alcohol blends produced from natural gas. These alcohol fuels tax exemptions are scheduled to expire after December 31, 1992.

Bus fuels and tires.--Private and public bus operators are exempt from the excise tax on tires. Intercity common carrier buses, school buses, and qualified local buses are exempt from the 9-cents-per-gallon taxes on gasoline and special motor fuels. School buses and qualified local transit buses are also exempt from the 15-cents-per-gallon diesel fuel tax. In addition, qualified intercity buses are eligible for a 12-cents-per-gallon refund (or credit) of the 15-cents-per-gallon diesel fuel tax. Nonqualified local and intercity buses (determined by passenger capacity and nature of routing), however, receive no exemption.[4]

Other.--General exemptions are provided from the highway excise taxes for State and local governments and tax-exempt educational organizations, and for exported articles. There is also an exemption from the fuels taxes for fuel used on a farm for farming purposes, and for off-highway business use (other than boating and noncommercial aviation use).

(A partial exemption of 4 cents per gallon of the tax on fuel used by qualified taxicabs expired September 30, 1985.)

Gasoline and diesel fuel excise tax collection

Gasoline tax.--The gasoline excise tax (9 cents per gallon) is levied on the sale or use of gasoline by a producer or importer. The term "producer" includes a registered wholesale distributor ("jobber") selling to retailers or other wholesalers. Also, the term "wholesaler" includes certain chain retailers having 10 or more gasoline stations under common

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[3] There is also an income tax credit of 60 cents per gallon of alcohol that is used in the production of an alcohol fuels misture, is sold for use as a fuel in a trade or business, or, at retail, is placed in a person's fuel tank.

[4] No exemption is available for local or intercity buses engaged in transportation that is not scheduled and not along regular routing, unless the seating capacity is at least 20 adults (not including the driver).

management. Such registered wholesalers may purchase the gasoline tax-free from the refiner or importer and collect the tax upon sale to a retailer or consumer.

Diesel fuel tax.--An excise tax (15 cents per gallon) is imposed on the sale of diesel fuel for use in a diesel-powered highway vehicle, which is collected at the retail level.

Administration Proposal

Extension of highway excise taxes

The Administration's Highway Trust Fund (HTF) proposal[5] would extend the existing HTF excise taxes at current rates for four years (through September 30, 1992). The proposal also would provide a four-year reauthorization of HTF expenditure programs (fiscal years 1987-1990).

Repeal of certain excise tax exemptions

The Administration proposal would repeal the current excise tax exemptions available for gasohol, methanol and ethanol fuels, effective on January 1, 1987.

The Administration proposal also would repeal the present law exemptions for fuel and tires for intercity and local transit buses. School buses would remain eligible for full refund or exemption from the 9-cents-per-gallon taxes on gasoline and special motor fuels, and would be eligible for a 12-cents-per-gallon refund or exemption of the 15-cents-per-gallon diesel fuel tax. School buses would continue to be exempt from the tax on tires.

Gasoline excise tax collection

The Administration has proposed changing the imposition of the gasoline excise tax from the point of sale to a non-registered distributor or retailer to the refiner or importer.

Other Congressional Action

H.R. 3838

Alcohol fuels.--In the tax reform conference agreement (H.R. 3838), the excise tax exemption for gasohol would be retained at 6 cents per gallon, and the exemption for neat methanol and ethanol fuels not derived from petroleum or natural

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[5] See S. 2189 and H.R. 4144.

gas would be reduced from 9 cents per gallon to 6 cents per gallon (effective on January 1, 1987).

Taxicab fuels.--The conference agreement on H.R. 3838 would extend the prior 4-cents-per-gallon motor fuels tax exemption for qualified taxicabs for three years, through September 30, 1988.

Gasoline tax collection.--The conference agreement on H.R. 3830 would change the imposition of the gasoline excise tax from the point of sale to a non-registered distributor or retailer to the refiner or importer, effective on January 1, 1988. Also, the Treasury Department would be required to submit a report by December 31, 1986, with respect to the collection and enforcement of the current gasoline tax.

Diesel fuel tax collection.--The conference agreement on H.R. 3838 would permit an election to collect the diesel fuel excise tax on the sale by the wholesaler to the retailer of the fuel (or on the sale by the manufacturer where that sale is direct to the retailer) in the case of a qualified retailer. This would be effective for sales of diesel fuel (for use in highway vehicles) after the first calendar quarter beginning more than 60 days after the date of enactment.

Diesel fuel tax refund for school buses.--The conference agreement on H.R. 3838 also would provide a technical amendment to allow a full 15 cents per gallon refund of tax paid on diesel fuel used in school buses while engaged in transportation of students and school employees.

H.R. 3129

Extension of highway excise taxes.--H.R. 3129 (title V) as passed by the House on August 15, 1986, would extend the current highway excise taxes and Highway Trust Fund expenditure authority for five years, through September 30, 1993.

Exemptions.--H.R. 3129 includes the provisions of H.R. 3838 relating to reduction in the exemption from the special fuels excise tax for neat alcohol fuels (derived other than from petroleum or natural gas) from 9 cents to 6 cents per gallon. Also, the bill includes a technical amendment from H.R. 3838 to allow a full 15-cents-per-gallon refund of excise tax paid on diesel fuel used in school buses.

Excise tax collection study.--H.R. 3129 would require the Treasury Department to submit a report by December 31, 1986, with respect to the collection and enforcement procedures and problems for the excise taxes on gasoline and other motor fuels, as well as for other Federal excise taxes (including but not limited to taxes on tobacco products, alcoholic beverages, and aviation taxes). The report regarding the gasoline excise tax is to be submitted by October 1, 1986.

II. HIGHWAY TRUST FUND AUTHORIZATIONS

Background

The Highway Trust Fund and the related highway excise taxes have been extended four times since 1970: a five-year extension in the Federal Aid Highway Act of 1970 (from September 30, 1972 through September 30, 1977), a two-year extension in the Federal-Aid Highway Act of 1976 (through September 30, 1979), a five-year extension in the Surface Transportation Assistance Act of 1978 (through September 30, 1984), and a four-year extension in the Surface Transportation Assistance Act of 1982 (through September 30, 1988).

The Highway Trust Fund authorizations in the 1982 Act were for fiscal years 1983-1986. Thus, the revenues deposited in the Trust Fund lag behind the authorization period by two years. This is due to the lead time required between the time a project is authorized or obligated and the time when money is needed to pay for it. Also, the "Byrd Amendment" requires that highway apportionments be reduced when unfunded authorizations exceed estimated receipts in the following 24-month period.

In the 1982 Act, the Highway Trust Fund statute was codified in the Internal Revenue Code (sec. 9503), effective January 1, 1983.

Highway Trust Fund Expenditures Purposes

The 1982 Act established two Accounts within the Highway Trust Fund: the Highway Account and the Mass Transit Account. Amounts may be paid from the Highway Trust Fund through September 30, 1988, as provided in appropriation Acts, to meet obligations incurred in carrying out the purposes of the Trust Fund. Obligations may be incurred for the purposes specified in the Highway Revenue Act of 1956, the Surface Transportation Assistance Act of 1982, or any law thereafter, for a general purpose authorized under these Acts as in effect on December 31, 1982. Thus, any new general expenditure purpose from the Trust Fund requires a Code amendment.

Highway Account expenditures

The general highway-related programs authorized from the Trust Fund include the following:

- Interstate highway construction and resurfacing and repair
- Federal-aid highways, including primary and secondary systems, urban systems
- Forest and public lands highways, scenic highways,

parkways, Indian roads

- o Highway hazard elimination projects
- o Bridge replacement and rehabilitation
- o Emergency (disaster) relief
- o Rail crossings and demonstration projects
- o Traffic control and traffic signal demonstration projects
- o Intermodal urban demonstration projects
- o Carpool and vanpool grants
- o Pedestrian walkways and bike ways on rights of ways
- o Highway-related safety grants
- o Motor carrier safety grants
- o Highway safety research and development
- o National Highway Traffic Safety Administration for a share of traffic safety programs
- o Certain highway administrative costs

Mass Transit Account expenditures

The Mass Transit Account in the Trust Fund is financed from the revenue equivalent of one cent of the tax on highway motor fuels. Amounts in the Mass Transit Account are available for making capital expenditures authorized under section 21(a)(2) of the Urban Mass Transportation Act. An anti-deficit provision is provided so that unfunded transit authorizations may not exceed estimated account receipts for the following 12 months (compared to 24 months for the Highway Account).

Highway Trust Fund Authorizations

S. 2405 as reported by the Committee on Environment and Public Works

The Committee on Environment and Public Works has reported a four-year reauthorization bill (S. 2405) for Highway Trust Fund expenditure programs, for fiscal years 1987-1990.[6] The

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6 Extension of mass transit authorizations from the trust fund have not yet been reported by the Senate Committee on Banking, Housing, and Urban Affairs.

current trust fund authorization programs run through fiscal year 1986, as enacted in the 1982 Act. (Interstate authorizations are provided through 1989 under present law.)

Highway and highway safety program authorizations under S. 2405 for fiscal years 1987-1990 total $52.3 billion ($13.1 billion per year). This compares with $14.8 billion authorized for fiscal year 1986 (after the 4.3 percent budget cutback under "Gramm-Rudman-Hollings").

Administration Proposal

The Administration proposal would extend the Highway Trust Fund authorizations for four years, fiscal years 1987-1990. The proposal would consolidate Interstate construction and repair with the primary-aid program; allow Interstate transfer/substitution funds for both highway and transit projects to be funded out of the Highway Account (currently, highway substitutions are paid out of the Highway Account and transit substitutions are paid out of the Mass Transit Account); and consolidate the mass transit construction and other major highway-aid programs (urban, secondary, and non-primary bridges) into a highway and mass transit block grant. Costs of sign removal and junkyard screening and removal would be paid out of the State's Interstate/Primary program funds.

The Administration proposal would authorize a total of $14.0 billion per year for the four fiscal years, 1987-1990, of which $3.3 billion would be for the new highway and mass transit block grant. This would total $56.1 billion over the four years out of the Trust Fund.

H.R. 3129 as Passed by the House

H.R. 3129 as passed by the House (August 15, 1986) would provide a five-year reauthorization for Highway Trust Fund expenditure programs, for fiscal years 1987-1991.

Highway and highway safety program authorizations from the Trust Fund under H.R. 3129 for fiscal years 1987-1991 total $70.2 billion (an average of $14.0 billion per year). H.R. 3129 also includes mass transit authorizations from the Highway Trust Fund, amounting to $1.1 billion for fiscal year 1987 and $1.8 billion per year for fiscal years 1988-1991, for a total of $8.25 billion.

H.R. 3129 would authorize $5 million per year out of the Trust Fund for fiscal years 1987-1991 for billboard and sign removal costs and $5 million per year for university regional transportation research centers. Previously, any such amounts were authorized to be appropriated only from the general fund.